



November 7, 2019

**Submitted Electronically – [www.regulations.gov](http://www.regulations.gov)**

Board of Governors of the Federal Reserve System  
Attn: Ms. Ann Misback, Secretary of the Board  
20<sup>th</sup> Street and Constitution Avenue NW  
Washington, DC 20551

RE: Federal Reserve Actions to Support Interbank Settlement of Faster Payments  
Docket No. OP-1670

Ladies and Gentlemen:

On behalf of the nation's retailers, the National Retail Federation ("NRF") is pleased to submit this letter supporting the Federal Reserve Board's ("Fed") decision to facilitate 24x7x365 real-time payments via the FedNow Service ("FedNow" or "Service") and responding to the Fed's request for initial comments on the design and features of FedNow.<sup>1</sup> As we have previously commented, NRF fully supports creation of a Fed-operated real-time gross settlement (RTGS) system as soon as practicable.<sup>2</sup> The ultimate features and functionality of FedNow will determine its efficacy and ubiquity in the retail sector and we look forward to working with you on these important details as implementation progresses.

Generally speaking, as our recommendations below reflect, we believe FedNow's design should:

- Prioritize interoperability with other services (RTGS and auxiliary) and maximize accessibility by developers, service providers, end-users, and other operators to accelerate ubiquity of real-time payments;
- Drive industry-wide improvements in payment security, consumer data protection, and anti-fraud practices by imposing clear security standards for FedNow users and service providers, and by promoting development of a centralized directory service to facilitate transactions without unnecessary sharing of personal information; and
- Continue to engage all stakeholders throughout implementation and after via an inclusive and transparent governance or advisory structure.

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<sup>1</sup> Board of Governors of the Federal Reserve System, Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Notice and request for comment, 84 Fed. Reg. 39297 (Aug. 9, 2019) (hereinafter the "Notice").

<sup>2</sup> See "NRF Letter to Board of Governors of the Federal Reserve System regarding Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Docket No. OP-1625," December 14, 2018, available at [https://www.federalreserve.gov/SECRS/2019/February/20190207/OP-1625/OP-1625\\_121418\\_133246\\_357315997073\\_1.pdf](https://www.federalreserve.gov/SECRS/2019/February/20190207/OP-1625/OP-1625_121418_133246_357315997073_1.pdf). To avoid repetition, the contents of this earlier letter are incorporated herein by reference.

See also "Joint Letter from NRF, Food Marketing Institute, Merchant Advisory Group, et al. to the Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, July 24, 2019, available at [https://www.federalreserve.gov/SECRS/2019/October/20191001/OP-1625/OP-1625\\_072919\\_134353\\_485592295274\\_1.pdf](https://www.federalreserve.gov/SECRS/2019/October/20191001/OP-1625/OP-1625_072919_134353_485592295274_1.pdf).

## BACKGROUND

### **NRF is an important voice in advancing U.S. payment systems for all stakeholders.**

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants, and internet retailers in the United States and more than 45 countries. Retail is the largest private-sector employer in the United States, supporting one in four U.S. jobs – approximately 42 million American workers – and contributing \$2.6 trillion to annual GDP.

As the industry umbrella group, NRF has offered testimony and guidance on the cost, efficiency, and security of the U.S. payment system, including on the important benefits and essential features of a Fed-run real-time gross settlement (“RTGS”) system.<sup>3</sup> Our members are among the payment system's most important stakeholders. As merchants who sell goods and services, in person and through e-Commerce channels, to millions of customers each day, our platforms provide the interaction between these consumers, on the one hand, and on the other hand, numerous banks, card networks, mobile payment apps, and other modalities.

NRF and our member companies have been active in communicating with the Fed about the state of, and reforms to, the payment system. NRF has participated in the Fed's Secure and Faster Payments Task Forces, and has offered feedback through the Fed's portal on several related topics. These and previous comments from NRF on real-time payments reflect our primary goals for improving the ways that our customers make millions of payments every day: We all need faster, cheaper, more secure, and more numerous payment options in order to become the most advanced payments economy in the world.

### **The Fed should Act as quickly as possible to implement the FedNow Service and deliver much-needed advancements and benefits to the U.S. payment system.**

Again, for all of the reasons enumerated in the Notice, NRF applauds the Fed's decision to move forward with implementing the FedNow Service. Among the key benefits of a Fed-operated faster payments solution for NRF members are:

- Better alignment with consumer expectations regarding real-time transactions and information flow;
- Improved cash flow management and faster receipt of funds, which is particularly important for small businesses;
- Potential for better industry-wide security and anti-fraud standards across payment systems, and enhanced resilience and safety for payments and financial markets generally;

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<sup>3</sup> See, e.g., Id., NRF Letter to Board of Governors (Dec. 14, 2018); “NRF Letter to Federal Trade Commission regarding Competition and Consumer Protection in the 21<sup>st</sup> Century Hearings,” August 20, 2018, available at [https://www.ftc.gov/system/files/documents/public\\_comments/2018/08/ftc-2018-0050-d-0035-155060.pdf](https://www.ftc.gov/system/files/documents/public_comments/2018/08/ftc-2018-0050-d-0035-155060.pdf); Letter to House Financial Services Committee Regarding Financial Choice Act, April 26, 2017, available at [https://cdn.nrf.com/sites/default/files/2018-12/Interchange-2017-DurbinRepeal-NRF%20Statement\\_CHOICE%20Act\\_April%2026%202017.pdf](https://cdn.nrf.com/sites/default/files/2018-12/Interchange-2017-DurbinRepeal-NRF%20Statement_CHOICE%20Act_April%2026%202017.pdf); “Testimony of Mallory Duncan, General Counsel and Senior Vice President, National Retail Federation, before the Senate Banking, Housing, and Urban Affairs Subcommittee on National Security and International Trade and Finance, on Safeguarding Consumers’ Financial Data,” February 3, 2014, available at <https://www.banking.senate.gov/imo/media/doc/DuncanTestimony2314NSITF.pdf>.

- Heightened competitive dynamics with respect to pricing, quality, efficiency, innovation and accessibility in payments systems and more equitable delivery of payment services;
- Accelerated speed to market and nationwide reach due to the Fed's unique ability to convene and respond to all impacted stakeholders and to develop a neutral platform that is interoperable with other RTGS services and auxiliary services, and because of financial institutions' current reliance on Fed systems; and
- The Fed's demonstrated expertise and experience with operating a nationwide payment system on fair and equitable terms (e.g., FedACH).

As you know, several other countries are leading the U.S. in faster payments – and the lead is growing quickly. According to FIS, in 2019, there are 54 countries with live real-time payment systems (up from 40 in 2018 and 14 in 2014 when FIS began publishing its annual global report on real-time payment systems).<sup>4</sup> As the FIS report notes, now that these countries have laid down the “rails” for faster payments, they are focusing on interoperability of their systems to grow auxiliary services and transaction volumes, and fuel innovation in the larger payments and financial markets.<sup>5</sup> The longer the U.S. goes without a nationwide, accessible RTGS system, the more we forego demonstrated efficiency, security, quality, and cost-saving advancements in our own payments systems.

#### RESPONSES TO THE FED'S REQUEST FOR COMMENTS

##### **Recommended features of the FedNow Service to maximize adoption of, and all of the attendant benefits from, a Fed-operated real-time payments system in the U.S.**

###### A. Interoperability and fairness are linchpins for achieving ubiquity.

###### 1. Interoperability, a key stimulus toward ubiquity, should be a priority feature.

NRF agrees with the Fed that ubiquity should be a driving focus of FedNow's design. We also believe that interoperability will be a key driver of ubiquity. The Fed should therefore prioritize The Fed should therefore prioritize ubiquity in initial stages with the goal of interoperability of FedNow in the long run..

The Fed acknowledges throughout its Notice that the private sector has a faster payment system – the Real-Time Payments (“RTP”) System operated by The Clearing House. We agree entirely with the Fed that RTP (or any other private-sector service) cannot and should not be the sole platform for faster payments in the U.S. A single or even a limited number of private-sector operators raises serious market concentration concerns around access, quality, and costs, as retailers and others have experienced with existing payment systems (e.g., payment card networks)<sup>6</sup> – problems we can and should avoid in the real-

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<sup>4</sup> FIS, Flavor of Fast Report 2019, Global Highlights, available at <https://www.fisglobal.com/flavors-of-fast>; see also Flavor of Fast Report 2018, available at [http://empower1.fisglobal.com/rs/650-KGE-239/images/FLAVOR-OF-FAST-Report-2018.pdf?mkt\\_tok=eyJpIjoiT0RRNU1qVTFNbVkwTldSayIsInQiOiJBcFp6K29BTEJHZGdwR3Q3ZWwiRmpHUllldFJpYytTOXRpcemF2a3MxVUV5anNcL0RnUIRnZElwdH11UkNpdKFPVUpZQTJ2YTN0ajIwNnFXdGFGeFJDVEdlVkh2cmNMRnlweTF5K2V5U1wvWlY0Y2IxTzQ3OXZ6TG5JZHllcUxpbnQwIn0%3D](http://empower1.fisglobal.com/rs/650-KGE-239/images/FLAVOR-OF-FAST-Report-2018.pdf?mkt_tok=eyJpIjoiT0RRNU1qVTFNbVkwTldSayIsInQiOiJBcFp6K29BTEJHZGdwR3Q3ZWwiRmpHUllldFJpYytTOXRpcemF2a3MxVUV5anNcL0RnUIRnZElwdH11UkNpdKFPVUpZQTJ2YTN0ajIwNnFXdGFGeFJDVEdlVkh2cmNMRnlweTF5K2V5U1wvWlY0Y2IxTzQ3OXZ6TG5JZHllcUxpbnQwIn0%3D).

<sup>5</sup> Id., Flavor of Fast Report 2019, Open APIs and New Services.

<sup>6</sup> See “NRF Letter to Board of Governors,” Dec. 14, 2018, *supra* note 2, at 2-4 for a full discussion of payment system challenges resulting from market dominance of payment system operators.

time payments space by interjecting a Fed-operated solution and much-needed competition. It also poses substantial risk to financial systems generally if a sole operator, particularly a private-sector one, fails. For these reasons and all of the others articulated in the Notice in support of implementing FedNow, it is important that the Fed operate its own real-time payment system.

We also cannot ignore, however, that RTP is a live system with some traction in the marketplace. To accelerate nationwide real-time payment capabilities and to maximize the competitive benefits of redundant systems, therefore, it is important that FedNow and RTP be interoperable as soon as possible, but not if it would hinder the initial roll out of FedNow.<sup>7</sup>

More generally, FedNow should be accessible to the point that payments can be made directly across real-time payment services; so, any entity or person can use the FedNow Service to initiate and/or receive payments from other entities or individuals using services of other operators, networks, and providers. To that end, we encourage the Fed to adopt standard APIs through which different developers and systems can connect to the Service. We believe ubiquity will be achieved faster with more developers interacting with the Service. Also, through use of secure open APIs, the Fed can improve end-users' adoption, access, and experience across real-time payment services by allowing them to manage their accounts at any time through a variety of trusted third-party providers.

2. Accessibility of the FedNow System should be maximized to promote competition in the public and private auxiliary service markets.

Relatedly, the FedNow Service should be designed to maximize competition and innovation in the auxiliary service space, whether those services are provided by the Fed or the private sector. Unlike a private-sector operator, which could favor its own products and limit others' ability to access RTGS services, the Fed is uniquely positioned to develop a neutral platform that will allow – and even better, encourage – a variety of innovative value-add services to improve consumers' overall experience and payment system functionality and efficiency.

For instance, adoption of standardized coding that meets stringent security standards could facilitate open banking in the U.S., which has been used successfully around the world to bring new payment methods to market. Similarly, interoperability could fuel value-added messaging capabilities to allow payees to request payments from consumers, who can then push payments out instantly without having to expose unnecessary financial information to the biller.

As new payment service providers and alternatives emerge, competition will grow. More competition will, in turn, drive all providers – current and future – to improve quality (e.g., security, accessibility, value-add services) and reduce costs across all payment systems.

3. Access to, and funding of, the FedNow Service should be fair and equitable.

Another key driver of ubiquity for the FedNow Service will be fair and equitable access to the system, which, in addition to enabling technological access by all providers, implicates the Service's fee structure. The Fed's statutory mandate and pricing principles reflect its core objectives of achieving the broadest possible accessibility of the Fed's services, promoting competitive fairness, and keeping prices

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<sup>7</sup> We acknowledge that “interoperability” can mean different things to different actors. We believe that the Federal Reserve's intention to adopt ISO 20022 messaging standards is an important first step to interoperability, and that through the comment and governance process, interoperability is achievable as part of the FedNow architecture.



down by tying them to actual operating costs. In the FedNow context and others, NRF fully supports these policy goals.

Here, we think a fair pricing structure is one in which both sides to a transaction pay equally, and to the extent current pricing models for RTGS services deviate from that format, we encourage the Fed to refrain from following suit. We also generally support the Fed's long-term view of cost recovery for nascent payment infrastructures like FedNow (much like the approach taken with the ACH system).

4. Use of the FedNow Service should not be unduly limited for businesses because of an arbitrary value limit.

NRF encourages the Fed to reconsider its proposed value limit of \$25,000 for payments settled through FedNow, as well as its proposal to allow banks to establish even lower limits for their customers.<sup>8</sup> These limits would unnecessarily circumscribe use of the FedNow Service for business-to-business transactions in the retail sector and across the economy.

Although consumer transactions are generally lower-dollar amounts, business payments to suppliers and service providers can often exceed \$25,000. Retailers executing these business-to-business payments should not be unduly precluded from the benefits of faster payments (e.g., cash flow management, secure transactions, etc.). While we appreciate the Fed's desire to minimize the potential harm from fraudulent transactions – an aim shared by all stakeholders – we believe a more efficacious route to that goal is ensuring that the system has adequate fraud prevention features and security standards in place from the outset (discussed in further detail below), not by arbitrarily limiting access of this valuable new service via a transaction value limit.

5. Liquidity management services also will enhance real-time *payments' adoption and* success.

Because real-time payments unquestionably raise new liquidity challenges (and incomplete or non-payment risk for individual businesses), we are glad that the Fed is considering liquidity management functionality as a complementary service to FedNow and other RTGS services, as well as existing systems like ACH. We agree with other stakeholders that expansion of Fedwire Funds Service and National Settlement Service hours to full-time operation would be an effective and valuable tool for users of RTGS services and also for payment systems and financial markets more broadly (e.g., by allowing transfers from master accounts during more hours to decrease the likelihood that businesses will receive incomplete payments due to lack of funds, expanding settlement windows for ACH payments, facilitating international transactions, etc.). We understand that the Fed plans to invite comments separately on this issue and we look forward to providing additional feedback at that time.

**B. The Fed Should Capitalize on this Opportunity to Improve Safety and Security throughout U.S. Payment Systems.**

FedNow presents a real opportunity for improved safety and security in the U.S. payments system at both the macroeconomic level (e.g., resiliency through redundancy of payment options, minimization of systemic risk to the financial system, institutional reputation and stability, etc.) and at the consumer/transaction level (e.g., additional privacy protections, reduction in fraudulent transactions, etc.).

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<sup>8</sup> Notice, 84 Fed. Reg. at 39317, n. 100; Federal Reserve FedNow Service Webinar, Aug. 27, 2019, at 10, <https://www.youtube.com/watch?v=AvHsQ3ZtvRs> (last visited Nov. 4, 2019).

With respect to the latter category, the Fed has several tools – and a perfect opportunity – to promote better security practices throughout the system.

1. The Fed should support development of a directory service using non-personally identifiable information to obviate the need to disclose personal and account information to complete real-time transactions.

One measure contemplated in the Fed’s Notice is the formation of a directory service that will allow financial institutions to connect and transactions to be settled without unnecessary transfers of consumer or account data. As the Fed notes, businesses and individuals value the ability to complete transactions based on public identifiers, and enabling such pro-privacy and pro-security functionality would, we think, promote adoption of FedNow and other faster payment solutions.

Indeed, development of directory services that use non-personally identifiable information (e.g., aliases) to execute real-time transactions has been endorsed by the Faster Payments Task Force as an effective and secure way to promote interoperability and ubiquity.<sup>9</sup> NRF therefore strongly supports development of a centralized directory and looks forward to working with you to design a solution that works for all stakeholders.

For example, NRF encourages the Federal Reserve to consider a Request for Payment Message, similar to a debit pull transaction. NRF believes this approach will provide added security as it requires account holder participation in the transaction. The bank or other determined decision maker can authenticate the account holder through utilizing security measures. When coupled with strong end-user authentication, the Request for Payment mechanism would help to alleviate the risk of fraudulent requests for payment via false billing, social engineering or other means. NRF believes a Request for Payment is key to gaining adoption across the fragmented merchant end-user landscape.

To the extent personal and/or account information must be exchanged, such information should be tokenized to prevent any unauthorized access. Reliable protection of end-user data will be critical to adoption and success of faster payments solutions, including FedNow. Accordingly, the Service should be designed to protect sensitive data before, during, and after a transaction.

2. The Fed should establish anti-fraud standards for FedNow users and related service providers, which will fuel better fraud prevention across payment systems.

The Fed also recognizes in its Notice the importance of fraud prevention and detection functionality for the new Service. We believe this is a crucial piece of FedNow’s implementation. Specifically, we encourage the Fed to adopt robust security standards and requirements for users of the FedNow infrastructure, which, we think – due to heightened competitive pressures – will actually result in improved industry-wide standards across payment systems.

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<sup>9</sup> See Faster Payments Task Force, Recommendation 4: Establish an Inclusive Directory Work Group, <https://fasterpaymentstaskforce.org/goals-and-recommendations/establish-an-inclusive-directory-work-group/> (last visited Nov. 4, 2019).

For example, standards for end-user enrollment and securing transaction entry points through multi-factor authentication, behavioral analysis, and biometric authentication would help ensure that only authorized users are interacting with the Service and only their authorized transactions are processed. These types of anti-fraud practices should become standard for emerging payment models facilitated by RTGS services (e.g., open banking) and any new services that are offered in conjunction with FedNow (whether they are offered by the Fed or the private sector). Requiring such security measures for users of FedNow will not only have immediate benefits for the Service itself, but will also drive security improvements in the broader payments system as new service providers adopt better anti-fraud practices and existing providers and institutions are incentivized to adapt in a more competitive marketplace.

The FedNow system must also be designed to ensure that payments reach the intended payee at the correct account. Service functionality could, for example, allow for some pre-payment confirmation that the payee is the intended receiver (e.g., a message to the payee that requires some sort of identity verification).

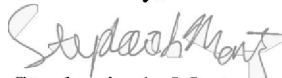
C. Inclusive and Transparent Governance is Essential for FedNow's Growth and Long-Term Effectiveness.

Although this issue was not specifically raised in the Notice, NRF urges the Fed to develop an inclusive and transparent governance and/or advisory structure for FedNow that allows for input and influence from diverse stakeholders, including end-users, retailers, service providers, financial institutions, and regulators. The U.S. Faster Payments Council ("FPC") is an example of an inclusive body that represents the broad variety of interests, risks, and challenges in today's ever-evolving payments landscape.<sup>10</sup> Leveraging an existing group like the FPC – and its work already underway drawing on the expertise and perspective of its members – would help the Fed timely address complex issues like interoperability and security, and significantly accelerate the implementation process and nationwide reach of FedNow.

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In sum, we applaud the Fed's decision to move forward with the FedNow Service and your continued engagement of all stakeholders in the design and implementation process. It is time for the U.S. to catch up to other countries in terms of improving the speed, efficiency, and security of our payments system. American consumers deserve all of the direct and ancillary benefits of an accessible nationwide real-time payments' infrastructure. We look forward to working with you to achieve this goal.

Yours Truly,



Stephanie A. Martz

Senior Vice President and General Counsel  
National Retail Federation

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<sup>10</sup> U.S. Faster Payments Council, About the FPC, <https://fasterpaymentscouncil.org/#about-the-fpc> (last visited Nov. 4, 2019).